Labor Market Recoveries Across the Wealth Distribution

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Abstract

This paper studies why, in the aftermath of recessions, low-wealth workers experience larger falls and slower recoveries in earnings than high-wealth workers. I show that differences in job-switching and job-losing rates play an important role in explaining these earnings dynamics. I build a macro model of the labor market that includes a novel ingredient, which I document and quantify empirically: when workers switch to new jobs they suffer a 9 percentage point increase in their job-loss probability over the first fifteen months at the new job. Through this model I conclude that differences in job-switching and job-losing by wealth, which the model can endogenously reproduce, explain 20 percent of the gap in earnings between low- and high-wealth workers following the Great Recession. Furthermore, the model is consistent with the sudden increase in job-switching that the US labor market experienced following the Pandemic recession, suggesting that generous government stimulus played a sizable role in the recovery.

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